

HOUSE BILL REPORT

HB 1742

As Reported by House Committee On:

Housing
Finance

Title: An act relating to tax incentives for certain multiple-unit dwellings in urban centers.

Brief Description: Providing tax incentives for certain multiple-unit dwellings in urban centers.

Sponsors: Representatives Clibborn, Haler, Appleton, Ericks, Simpson, Kristiansen, Linville, Schindler and Quall.

Brief History:

Committee Activity:

Housing: 2/15/05, 2/17/05 [DPA];

Finance: 3/4/05, 3/7/05 [DP(w/oHOUS amd)s].

Brief Summary of Bill

- Lowers the population threshold from 30,000 to 5,000 for cities participating in the property tax exemption program for rehabilitated multiunit family housing in urban areas.

HOUSE COMMITTEE ON HOUSING

Majority Report: Do pass as amended. Signed by 9 members: Representatives Miloscia, Chair; Springer, Vice Chair; Holmquist, Ranking Minority Member; Dunn, Assistant Ranking Minority Member; McCune, Ormsby, Pettigrew, Schindler and Sells.

Staff: Robyn Dupuis (786-7166).

Background:

New, rehabilitated or converted multifamily housing projects in targeted residential areas are eligible for a 10 year property tax exemption program. A targeted residential area must be located within an urban center, lack sufficient, available, desirable, and convenient residential housing to meet public demand, and increase permanent residents in the area to achieve the planning goals of the Growth Management Act (GMA). The tax incentive program's purpose is to reduce urban sprawl and increase the number of permanent residents in established residential centers through the affordable development of multiple-unit dwellings.

The property tax exemption may be applied to new housing construction and the increased value of a building due to rehabilitation. The exemption does not apply to the land or the non-housing related improvements. If the property changes use before 10 years and no longer complies with guidelines established by the city for participation in the tax exemption program, then back taxes are recovered based on the difference between the taxes paid and taxes that would have been paid without the tax exemption program.

The property tax exemption program is limited to cities with a population of at least 30,000 or the largest city or town in a county planning under the GMA. There are 48 towns and cities that qualify for participation in the tax exemption program.

This is a voluntary program in which cities may or may not choose to participate. If the city does choose to utilize the tax exemption program, that city is authorized to establish standards and guidelines beyond those found in statute for approving tax exemption applications by developers.

According to current statute, all projects, at a minimum, must meet the following requirements:

- The multiple-unit housing must be located in a residential targeted area as designated by the city.
- The housing must meet the guidelines as adopted by the city which may include density, size, parking, low-income occupancy and other adopted requirements.
- Fifty percent of the space must be for permanent residential occupancy.
- New construction must be completed within three years of the application's approval.
- Property to be rehabilitated must be vacant at least 12 months prior to application.
- The applicant must enter into a contract with the city to agree to terms and conditions.

Individual cities track the progress and outcomes of tax exempt, multiple-unit dwelling developments within their boundaries, however, there is no state agency accumulating this information for the purpose of monitoring the use and effectiveness of this program statewide.

Summary of Amended Bill:

The minimum population cap is reduced from 30,000 to 5,000 for the multi-unit dwelling property tax exemption program.

Seventy-one additional towns and cities will be able to participate in the tax exemption program due to the population cap reduction. One hundred nineteen total towns will be eligible to participate in the tax exemption program.

The Department of Revenue (DOR) will produce and present a biennial report on the performance of the multiple-unit dwelling tax exemption program to the Housing Committee of the House of Representatives and the Financial Institutions, Housing and Consumer Protection Committee of the Senate.

Amended Bill Compared to Original Bill:

Requires that the DOR produce and present a biennial report on the performance of the multiple-unit dwelling tax exemption program to the appropriate committees of the House and Senate.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The tax exemption program is a key strategy used by cities to accomplish downtown revitalization. Increasing the residential population downtown contributes to life in the city "after five" and therefore encourages economic development. The tax exemption only applies to the value of the construction. This bill would not effect land property taxes. After 10 years, the entire property returns to the tax role. As a safety guard, if the property changes use before 10 years and no longer complies with the tax-exempt program requirements, then back taxes will be collected. This is a voluntary program and reducing the population cap would simply allow another 70 or so cities to take advantage of the program if they choose.

Testimony Against: None.

Persons Testifying: Representative Clibborn, prime sponsor; Representative Haler; and Jim Justin, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass without amendment by Committee on Housing. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Mark Matteson (786-7145).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Housing:

Removes the amendment to require the Department of Revenue to produce a biennial report on the performance of the program.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This program is so popular that we have been decreasing the population thresholds almost every year. This allows cities to have another tool to revitalize their downtowns.

The Association of Washington Cities supports this effort. It lowers the threshold from 30,000 persons to 5,000 to help with downtown development and redevelopment. The exemption applies only to the value of the upgrade, and expires after 10 years. Tacoma has used this extensively. There is no impact on state revenues, and this is a local option.

Testimony Against: None.

Persons Testifying: Representative Clibborn, prime sponsor; and Jim Justin, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: None.